

Message Text

CONFIDENTIAL

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----017888 202142Z /44
O 202128Z JUN 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC IMMEDIATE 3877

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 05337

EXDIS

PASS WHITE HOUSE FOR SCHLESINGER, FEA FOR O'LEARY

E.O. 11652: GDS
TAGS: ENRG, CA
SUBJECT: ENERGY: DECISION ON GAS EXPORT PRICE INCREASE

1. SUMMARY: ON JUNE 23 GOC WILL ANNOUNCE INCREASE IN EXPORT PRICE OF NATURAL GAS TO U.S. DOLS 2.16/MCF EFFECTIVE 90 DAYS AFTER ANNOUNCEMENT. THIS PRICE WILL BE IN FORCE FOR AT LEAST SIX MONTHS. GOC WILL ASK NEB TO REVIEW PRICE PERIODICALLY OR IN LIGHT OF "SIGNIFICANT" CHANGES IN MARKET CONDITIONS. END RESULT OF EXPORT PRICE INCREASE AND OF PLANNED DOMESTIC GAS PRICE INCREASES WILL BE SLIGHT NARROWING OF PRESENT EXPORT/DOMESTIC PRICE DIFFERENTIAL. EMBASSY PROPOSES MODERATE USG REACTION PER PARA 7 BELOW AND REQUESTS GUIDANCE ASAP. END SUMMARY.
2. EXTAFF ASSISTANT UNDER SECRETARY PETER TOWE HANDED AMBASSADOR AND ASSISTANT SECRETARY OF STATE KATZ FOLLOWING AIDE MEMOIRE JUNE 20:

BEGIN TEXT: THE GOVERNMENT OF CANADA HAS DECIDED THAT EFFECTIVE 90 DAYS AFTER ANNOUNCEMENT OF ITS DECISION, THE BORDER PRICE OF NATURAL GAS EXPORTED TO THE UNITED STATES WILL BE U.S.A. DOLS 2.16 EXCEPT IN THE CASE OF ONE LICENCE
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WHERE THE PRICE WILL BE U.S.A. DOLS 2.00. THESE PRICES WILL BE EFFECTIVE FOR AT LEAST SIX MONTHS AND THE NATIONAL ENERGY BOARD WILL BE REQUESTED TO REVIEW THEM PERIODICALLY OR WHEN IT APPEARS WARRANTED IN THE LIGHT OF SIGNIFICANT CHANGES IN MARKET CONDITIONS.

THE NEW EXPORT PRICE REPRESENTS THE CURRENT B.T.U.

EQUIVALENT COST WHICH CANADIANS ARE REQUIRED TO PAY FOR OIL IMPORTED TO MEET ENERGY DEMAND WHICH, IN EASTERN CANADIAN MARKETS, MIGHT OTHERWISE BE MET BY CANADIAN GAS NOW BEING EXPORTED TO THE UNITED STATES.

THE NEW EXPORT PRICE WILL BE ANNOUNCED SIMULTANEOUSLY WITH SIGNIFICANT INCREASES IN DOMESTIC NATURAL GAS AND CRUDE OIL PRICES WHICH CONTINUE TO RISE TOWARDS INTERNATIONAL LEVELS IN ACCORDANCE WITH ESTABLISHED GOVERNMENT POLICY.

THE GOVERNMENT OF CANADA HAS FOUND THE BILATERAL EXCHANGES WHICH PRECEDED ITS DECISION A USEFUL MEANS OF EXPLORING FULLY THE VIEWS OF EACH COUNTRY ON THIS IMPORTANT MATTER.
END TEXT.

(NOTE: LICENSE WHERE PRICE WILL BE DOLS 2 IS GL-29, INTERNATIONAL FALLS/FORT FRANCES, WHICH HAS ALSO BEEN TREATED AS SPECIAL CASE IN PREVIOUS YEARS.)

3. AMBASSADOR AND KATZ POINTED OUT THAT UNLESS NEW PRICE IS PHASED IN THERE WILL BE AT LEAST TEMPORARY WIDENING OF GAP BETWEEN EXPORT AND DOMESTIC GAS PRICES AND INDICATED THIS WOULD HAVE TO BE TAKEN INTO ACCOUNT IN PREPARING USG REACTION TO GOC ANNOUNCEMENT. TOWE HELD OUT NO HOPE OF PHASE-IN, HOWEVER.

4. KATZ AGREED TO MAKE USG PRESS GUIDANCE AVAILABLE TO
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TOWE IN ADVANCE.

5. SUBSEQUENTLY EXTAFF CONFIRMED THAT GOC'S PUBLIC ANNOUNCEMENT IS SCHEDULED TO BE MADE THURSDAY, JUNE 23. THIS PRESUMABLY MEANS THAT HIGHER EXPORT GAS PRICE WILL BE EFFECTIVE SEPTEMBER 21.

6. COMMENT: GOC INFORMED BOSWORTH/MALIN TEAM AT JUNE 9 MEETING IN OTTAWA, ON STRICTLY CONFIDENTIAL BASIS, THAT IT HAD DECIDED TO RAISE DOMESTIC GAS PRICE BY DOLS .17 PLUS/MCF ON AUGUST 1 AND BY ANOTHER DOLS .17 PLUS/MCF ON FEBRUARY 1, 1978, BRINGING TORONTO CITY-GATE PRICE FROM PRESENT DOLS 1.505/MCF TO DOLS 1.85/MCF. THIS MEANS THAT EXPORT/DOMESTIC PRICE DIFFERENTIAL WILL BE NARROWED BETWEEN AUGUST 1 AND SEPTEMBER 21, WILL WIDEN AGAIN FROM SEPTEMBER 21 TO FEBRUARY 1, 1978, AND, ON AND AFTER FEBRUARY 1, WILL BE SLIGHTLY LESS THAN AT PRESENT IN BOTH PERCENTAGE AND ABSOLUTE TERMS UNLESS AND UNTIL THERE IS FURTHER INCREASE IN EXPORT PRICE.

7. EMBASSY BELIEVES THAT IN ADOPTING PRICE DOLS .09/MCF BELOW THAT RECOMMENDED BY NEB, GOC HAS BEEN RESPONSIVE

TO OUR HIGH LEVEL EXPRESSIONS OF CONCERN. WE SUGGEST
THAT USG PUBLIC REACTION BE ALONG FOLLOWING LINES:

A. AS CONSUMERS WE NATURALLY DEPLORE PRICE INCREASES;

B. WE NOTE, HOWEVER, THAT CANADIAN DOMESTIC PRICES ARE
ALSO GOING UP AND, IN FACT, BY NEXT FEBRUARY WILL HAVE

NOTE BY OC/T: NOT PASSED ABOVE ADDRESSEES.

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ACTION SS-25

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 3878

C O N F I D E N T I A L SECTION 02 OF 02 OTTAWA 05337

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INCREASED SOMEWHAT MORE THAN THE EXPORT PRICE IN BOTH
RELATIVE AND ABSOLUTE TERMS;

C. WE HAD FULL OPPORTUNITY TO CONSULT WITH GOC AND ARE
CONFIDENT THAT OUR CONCERNS WERE TAKEN INTO ACCOUNT BY GOC
IN COMING TO ITS DECISION.

8. ACTION REQUESTED: PLEASE CABLE AGREED PRESS GUIDANCE
ASAP SO THAT WE CAN FULFILL COMMITMENT TO INFORM GOC OF
OUR PLANNED PUBLIC REACTION IN ADVANCE.
ENDERS

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